

CORPORATE AMERICA'S MAGAZINE

BUSINESS MONTH

FORMERLY DUN'S BUSINESS MONTH

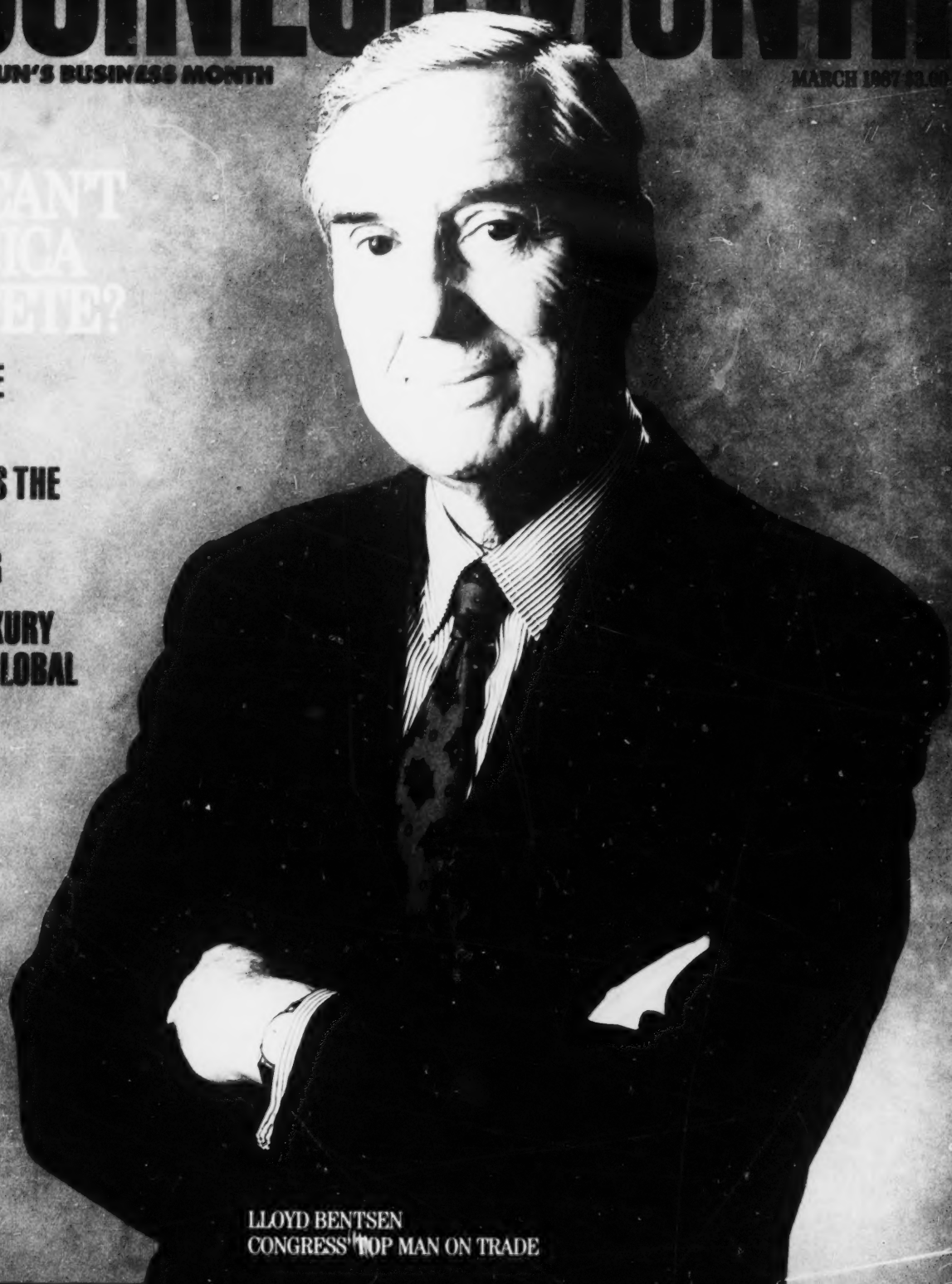
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AMERICA
COMPETE?

CFOS IN THE
TRENCHES

U.S. STOCKS THE
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ARE BUYING

FRENCH LUXURY
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CONGRESS' TOP MAN ON TRADE

BUSINESS MONTH

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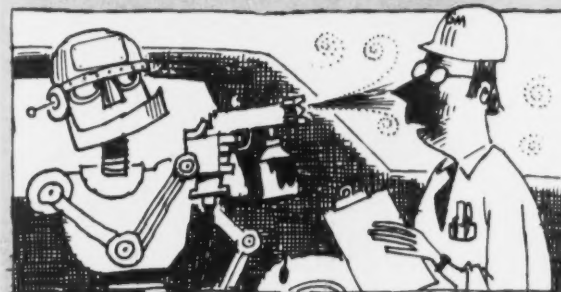
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suings commercial paper to refinance part of the General Foods purchase. Indeed, he has built an operation that is as independent from Wall Street as possible. Storr set up Philip Morris Credit Corp. in 1982 as an in-house financing arm and is constantly adding to his international borrowing capability. "You can't be a chief financial officer without knowing international markets," he says.

CLAYTON STEPHENSON UNION CARBIDE

J. Clayton Stephenson spent twenty-five years running various Union Carbide chemical operations before finding himself in a brutal takeover battle as the company's CFO. When GAF's Samuel J. Heyman started amassing Carbide's depressed stock in the wake of the 1984 Bhopal disaster and then bid to take it over, Stephenson masterminded the defense.

That defense gutted the company and burdened it with debt, but also rewarded shareholders handsomely. Carbide paid out \$4.3 billion to them in a tender package and a special \$33 dividend. "We said, 'If someone is going to get some money on this, we want it to be our shareholders, not his'," says Stephenson. The scorched-earth tactics boosted the stock price from \$7 to \$22 in twelve months. The bottom line: Sam Heyman went away.

The most important step was the first, Stephenson says: a strategy to get the stock price up, backed by the Carbide board and ready to go when the GAF bid hit the wires. Half measures wouldn't work, Stephenson told his board.

Carbide bit the bullet. Beginning in mid-1985, the company sold off its prized consumer products division, junked its five-year diversification plan and slashed 4,700 employees from its payroll. By 1986, it had shrunk from a \$9.5 billion company to a \$6.3 billion company. When GAF withdrew its \$5 billion bid in January 1986, Carbide's equity was a quarter of its original size and it had doubled its debt with a flood of junk bonds.

The recapitalization plan that came

next was equally grueling. "I sat down and had lunch with Pete Buchanan of First Boston one day in the fall of 1986," Stephenson recalls. "I said, 'This is what we are at the moment. I think there's a lot of investment banking opportunities in this. Why don't you guys come and talk to us?'"

First Boston CEO Buchanan not only came and talked, he and Stephenson worked out a \$3 billion plan to refinance the junk debt that included selling Carbide's new headquarters in the bucolic Connecticut hills and borrowing \$1 billion from First Boston itself. Carbide raised the rest by selling off more assets and issuing \$585 million in common shares, its first stock offering since 1917.

Stephenson says his operating background was invaluable. He started as an accountant with Carbide fresh out of Yale with a degree in economics, but after seven years in finance, switched to the operating side until he was named CFO. "That experience in the operating division made the financial fall into perspective," he says.

Operational management also made Stephenson a no-nonsense manager and planner. Fighting a raider is not that much different from building a new plant, he says. If you're going to do it,

do it. "Don't peck away," he says. "Bang, get it done. None of it would have worked if everything hadn't worked. And that kind of planning is the contribution that a guy in this role makes."

Stephenson gives plenty of credit to his investment bankers, First Boston and Morgan Stanley & Co. "We learned more corporate finance in twelve months than most people learn in a career," he says. His advice: "Really know your bankers. Work at the task of visiting with them and knowing them at all levels. Then when you've got a problem like this, you're starting from a knowledge base."

Last December, after the dust settled, Stephenson was rewarded by being appointed vice chairman as well as CFO and is now considered Number Two in line for the presidency. A robust man with a hearty voice, he offers no excuses for Carbide's failure to take its draconian steps until the GAF wolf was at the door. Why didn't the company get its stock price up sooner? "When did I stop beating my wife?" he answers with a smile. "Yes, we should have done this in 1981. The fact is we didn't. I could be very bitter, very unhappy. I'm not. It's been a very therapeutic experience." ■

WHAT U.S. STOCKS ARE THE JAPANESE BUYING?

The Japanese are funneling billions into the U.S. stock market. What do they like?

by David Kiley

Japanese money is pouring into the U.S. stock market at a record rate—\$17 billion in the first nine months of last year alone, perhaps twice that this year. What are the Japanese buying? Judging from volume in the 32 U.S. stocks now listed on the Tokyo Stock Exchange, Japanese investors like the icons of America.

"Japanese buy blue-chip stocks, especially ones with tradition, because they believe they are buying into American power," says Motoi Okada, executive vice president of Daiwa Securities America Inc. The heaviest volume on the Tokyo Exchange in January, for example, was in American Express, Dow Chemical, Disney, Merrill

Lynch, IBM and Citicorp. Philip Morris, Sears and First Chicago also showed big percentage increases between January 1986 and January 1987.

Japanese can invest either through the TSE or U.S. exchanges. The institutions buy in New York to have access to the full range of American stocks. Thus the table (right) largely reflects trading by individual Japanese. But analysts say it is a good indicator of overall trends.

Clearly, the image of the company in Japan is important. Disney, for example, is well known because of the tremendous popularity of the Disney theme park that opened in Tokyo in 1983 and the wide range of Disney products marketed in Japan.

But Japanese investors also keep up with the financial performances of their U.S. investments. Trading fell off heavily between January 1986 and January 1987 in such issues as ITT, General Motors and BankAmerica, all of which had earnings problems.

Japanese institutions buy many stocks that are not yet listed on the Tokyo Exchange—for example, Digital Equipment and Cray Research, both market leaders in an industry important to the Japanese. Dun & Bradstreet, Federal Express and Abbott Labs are also on Okada's buy list, as well as utilities such as Nynex Corp., Bell Atlantic Corp., Duke Power Co. and Citizens Utilities, an over-the-counter stock.

Institutions also share individuals' enthusiasm for TSE-listed U.S. blue chips, though. These are the best understood U.S. stocks, after all. "The Japanese buy into companies they understand from their own experience and which have a large market presence in Japan," says Michael Metz of Oppenheimer & Co.

Public interest in Japan increased sharply after the U.S. stock market's record 60-point September drop. In November, NHK, the Japanese national broadcasting network, devoted a special program to the U.S. market. "I think that was a turning point in Japanese awareness," says Okada.

Now, the Japanese are third behind

Great Britain and Switzerland in foreign equity investment in the U.S., and increasing their holdings at a faster pace. The \$17 billion that flowed in last year through September was more than twice the total for all of 1985 and many times the \$2.7 billion of 1984. If the yen remains stable, Okada believes the Japanese could put at least \$25 billion into U.S. equities this year. P. Maureen White, manager of international research for The First Boston Corp., wouldn't be surprised if it's much more, perhaps \$34 billion.

The fact is, the U.S. stock market has become a better buy for the Japanese than their own (see page 87). The Nikkei Dow Jones Index of Japanese stocks gained 42% in 1986. Price/earnings ratios on the TSE are at astronomical levels of fifty or sixty compared with about seventeen in the U.S. Moreover, the average yield on U.S. stocks is about 3.4%, versus about 0.6% for Japanese stocks.

Too, the government raised the limit on Japanese institutional investment outside the country from 10% of total portfolios to 30%.

Although U.S. brokers and investment bankers are steadily gaining visibility in Japan—so far fourteen American investment banks have set up shop in Tokyo—the Big Four (Daiwa, Nomura Securities, Nikko Securities and Yamaichi Securities) are still the brokers Japanese listen to, says one Wall

NOT MADE IN JAPAN

The number of U.S. issues on the Tokyo Exchange more than doubled in the past year, with the fourteen trading for the full year showing a 186% rise in volume.

	TRADING VOLUME	
	JANUARY 1987	JANUARY 1986
American Express	3,576,300	•
Dow Chemical	1,769,200	57,800
Disney	1,721,450	358,050
Merrill Lynch	1,379,500	296,600
IBM	847,890	350,580
Citicorp	799,100	1,299,600
PepsiCo	763,500	•
Philip Morris	690,650	108,370
Sears, Roebuck	414,650	85,250
McDonald's	414,150	•
Exxon	312,700	•
Weyerhaeuser	311,700	•
First Chicago Corp.	294,400	15,600
Waste Management	285,750	•
Procter & Gamble	275,500	•
US West	271,300	•
Eastman Kodak	209,300	•
FPL Group	195,700	•
Eli Lilly	166,200	•
RJR Nabisco	140,000	•
Bell Atlantic	132,750	•
General Motors	83,250	48,400
3M	64,280	15,860
Chrysler	46,300	•
Ameritech	41,250	•
E.I. duPont de Nemours	27,000	•
SmithKline Beecham	24,550	•
ITT	21,700	81,400
Security Pacific	18,950	26,050
Bank America	9,700	62,500
IU International	8,300	•
Chase Manhattan	2,500	27,150

• Not traded in Jan. 1986

Source: Tokyo Stock Exchange

Street analyst. "It's one thing for Merrill Lynch to tell Japanese investors to put their money into U.S. equities, but it didn't happen until Daiwa and Nomura said so," he says.

Substantial Japanese investment in U.S. equities will continue, says Okada, as long as the necessary conditions exist: A stabilized yen, the lower dollar, the high prices of Japanese stocks and the expanding presence of Japanese investment firms in New York. Only a catastrophe in the market would shut off the flow otherwise, he says. And even then, it would not be permanent. The Japanese, he says, are in the U.S. stock market to stay. ■

Trying to Survive In a Changing World

Neither government help nor better machine tool industry management will reverse the shakeout ahead.

by Marc Levinson

By all rights, America should be king of the machine tool trade. When it comes to drilling, cutting, grinding and shaping metal parts for everything from gears and pistons to rifle tubes, U.S. companies produce technologically advanced machines that no other country can match.

Instead, the industry is mired in troubles. Nearly 50% of the machine tools shipped to U.S. factories came from abroad last year, while domestic makers' shipments of \$2.8 billion were barely half their 1981 highs. Since 1982, hundreds of firms have shut their doors and industry employment has plummeted from 98,000 to 50,000.

In the current debate over America's international competitiveness, machine tools is precisely the kind of basic industry the politicians want to preserve. And their concern is justified: Capital goods are the vital core of the country's industrial base and its national defense (see box, page 48).

But the crusade to save machine tools exemplifies the difficulty of designing a "competitiveness policy." Foreign competition bears little responsibility for the industry's woes. Largely to blame are poor management, a sharp slump in capital spending that robs the industry of revenues, the cyclicity that has sapped the financial resources of small tool shops and the development of plastic and composite materials that are making traditional

metalworking machine tools obsolete.

The federal government has made one of its strongest commitments to help this small but vital industry. In December, President Reagan announced a five-year program of import quotas, research grants and closer ties with defense projects. Congress chimed in, requiring the Defense Department to buy only machine tools made in the U.S. or Canada. These measures are the leading edge of policy thinking about aiding depressed industries.

The government negotiated five-year voluntary import restraint agreements (VRAs) with Japan and Taiwan and threatened similar steps against Swiss and German producers. These actions should keep prices up, much as they have with Japanese autos.

Privately, many in the industry admit that, more than anything else, bad decisions of years past haunt tool builders today. When the auto and aircraft industries retooled in the late 1970s, tool builders had more work than they could handle. Many focused on highly sophisticated, multimillion-dollar products: hundred-yard-long automated lines to bore holes in tens of thousands of engine blocks, or flexible manufacturing systems that turn out thousands of different parts in any order without the help of a human hand.

Customers seeking to spend, say, \$300,000 for a standard numerically-controlled milling machine faced long

waits and high prices. "Lead times had gotten rather long," suggests J. David Morrissey of the Office of the U.S. Trade Representative. "That impelled a lot of users to look overseas."

Meanwhile, Japanese tool builders marketed computerized stand-alone units. And producers in Taiwan zeroed in on the bread-and-butter, low-tech market, such as non-numerically-controlled lathes.

The Japanese had few direct competitors in the mid-tech market: The U.S. giants pursued the higher-tech segment and the machines of smaller U.S. shops were often technologically backward. In the low-tech sector, U.S. makers had no technological edge and higher labor costs. By 1986, seven out of ten machining centers sold in the U.S. came from Japan.

With imports dominating the middle- and low-tech markets, small U.S. companies were pushed to the margin. Ironically, the industry giants' strategy also came a cropper. When the totally-automated factory turned out to have limited commercial appeal, the leading firms were left holding some of the world's most advanced technology—without buyers.

The industry was painfully sorting out its problems, long before it caught the Administration's attention. Left to their own devices, tool builders

slimmed down, merged, restructured, discarded unpromising businesses, adopted new marketing strategies and sought out new partners. Says Joe Franklin, administrative director of the National Machine Tool Builders' Association, "We've seen in this industry a significant case of structural change."

Large American manufacturers began changing their product lines to recapture the mid-tech market. They started promoting individual machines designed to be integrated into systems later, if the need develops. "We have moved down in the market to pick up the smaller customer," confesses William Fife, president of Cross & Trecker Corp.'s Kearney & Trecker unit. "We're trying to go back to the fifty-employee, mom-and-pop machine shop and sell them a plain vanilla machine."

Nevertheless, the relatively well-heeled U.S. majors still labor under marketing disadvantages. For one, there are large inventories of foreign machines overhanging the market. For

another, some U.S. companies lack distribution networks to sell smaller products. For example, Kearney & Trecker, which uses a direct sales force for its customized manufacturing systems, has few ties to the dealers who sell standardized machines.

Moreover, there isn't much demand for new machine tools. With only 79% of America's manufacturing capacity in use, laments Harry A. Hall, senior vice president of Giddings & Lewis Machine Tool Co., "there's not a big market left for U.S. builders to fill."

In the short term, the VRAs will enable the large companies to maintain their current operations in the U.S. But they are already casting about for foreign production sites for the day when the VRAs come off. Cross & Trecker sees its new licensee in India as a potential supplier for the U.S. market. Cincinnati Milacron is eyeing Southeast Asia. Adds Gidding & Lewis' Hall, "You've got to be vertically integrated on a global scale now."

No matter what the exchange rate,

few people expect that the assembly of standardized machine tools will remain in the U.S. What will remain is the manufacture of complex systems.

By the end of the decade, observers contend that the industry will be dominated by a relative handful of large companies: Cross & Trecker, now the country's largest tool builder; Cincinnati Milacron Inc.; Giddings & Lewis, a unit of AMCA International Ltd; privately-held Ingersoll Milling Machine Co.; and three or four others.

The VRAs are unlikely to reverse the competitive disadvantages of the smaller firms. As the rate of technical innovation accelerates, the day of the independent local tool builder is rapidly fading. The important differences between machines nowadays lie in the computer software that runs them, not in their physical design. Predicts Cross & Trecker CEO Richard T. Lindgren: "A company that wasn't strong enough to make it before the VRAs is not going to be strong enough to make it after the VRAs."

Two federal programs are designed to help the smaller firms compete. The Administration pledged \$15 million for a National Center for Manufacturing Sciences to do cooperative industry research. And the National Bureau of Standards is working on standardizing communications protocols, so a manufacturer could integrate a machine

WHO'S MAKING MACHINE TOOLS?

Here are the worldwide sales of the largest companies with substantial machine tool manufacturing in the United States.

Company	1985 Sales (millions)
Cross & Trecker	\$423.3
Cincinnati Milacron	325.8
Yamazaki Machinery Works	275.0
Lamb Technicon	225.0
AMCA	180.0
Oerlikon Buehler	170.0
Ingersoll Milling Machine	165.0
Litton Industries	145.0
Gleason Works	137.7
Esterline	135.9

Source: American Machinist

from a small tool builder into a system alongside other producers' equipment.

But these efforts will be too little and too late for firms such as Cincinnati's Lodge & Shipley Co., which is selling out to Belcan Corp., an engineering company. After 95 years in the lathe business, Lodge & Shipley can't keep itself in the technological forefront. "The further we got into that kind of effort, the more we realized the importance of control engineering," says William L. Dolle Jr., the company's president. "We got into projects where the engineering hours were greater than the direct labor hours."

Nor will import restrictions find customers for the smaller firms. For example, Wedco Technology, Inc., has lost money ever since it bought its way into machine tools three years ago, according to Vice President William C. Willoughby. Wedco's machine tool operation is now on the block.

A larger tool builder, Willoughby believes, could find economies of scale in engineering and bid preparation that Wedco's sixty-employee Wadell Equipment Co. in Edison, New Jersey, cannot. "It's not a market the Japanese are after. It's just a market that's extremely expensive to deal with. There are not too many customers," Willoughby says.

Government programs also fail to address the industry's long-term problem: a changing world. Many parts nowadays are made of plastics or lightweight composites that don't require extensive machining. "We've changed materials," says Cincinnati Milacron Chairman James A. D. Geier. "Things are no longer going to be built out of the materials they were built out of."

Thus, the need for machining of metal is diminishing. Even if the plastic piston doesn't arrive tomorrow, there may be new ways of making it out of metal, says Arthur D. Little & Co. consultant Harry Mathews. "There are new technologies," he reports. "They can do casting and molding of very complex and finished metal parts. So when you look in the future, you see a reduced need for machine tools."

And what about American competi-

WILL WE LACK MACHINE TOOLS FOR THE NEXT WAR?

Imagine a major war. Without a large machine tool industry, what would the country do?

That national security concern is the rationale for the Reagan Administration's program to help the tool builders. Modern tanks and aircraft use metal parts that require highly precise machining. If the machine tool manufacturing base shrinks further, Defense Department analysts worry, it will endanger America's ability to wage a prolonged conflict.

But it was the tool industry, not the government, that first raised the national security issue, in its petition for import quotas. The reason: The government can grant trade relief for defense reasons even when an industry is not seriously injured by imports—a case the tool builders couldn't make.

Edson I. Gaylord, president of Ingersoll Milling Machine Co. in Rockford, Illinois, and an outspoken opponent of protection, contends

that national defense is a red herring. "If it's a fifteen-minute war, you don't need stuff like machine tools," Gaylord argues. "If it's a long drawn-out affair like the 1940s, that involved all of American industry. To pick out one little sector and say this is essential is absurd."

The government's program assumes that five years of protection will assure the industry's survival. But it is unlikely tool builders will voluntarily maintain the vast capacity required for defense production at a time when non-defense customers are vigorously seeking ways to avoid machining metal. "That's the kind of process other industries are trying to get away from, because it's so expensive," asserts analyst John Alic of the Office of Technology Assessment.

Measures to steady the flow of defense orders, easing the industry's cyclical, would probably help more than protection to keep tool builders in business. In the long run, if the Defense Department wants to keep the nation's machine tool plant at its present size, it may have no choice but to foot the bill.

tiveness? To answer that question, another must be asked: What do we mean by competitiveness?

If the survival of U.S.-based manufacturers of machine tools is at issue, the government needn't worry. After five years of intense restructuring, the industry's leaders are positioned to survive. They have slashed capacity and fended off Japanese companies that have sought to establish bases in the U.S. The Reagan Administration's program will augment their profits in the short run and slow the invasion of imports.

If "competitiveness" means maintaining a large machine-tool manufacturing base in the U.S., the Administration's current policies can not help to reverse the technological changes that are shrinking demand for traditional machine tools. To prepare for

this new world, the machine tool giants are already diversifying into new businesses. Milacron has spread into plastics machinery and Cross & Trecker has a new software subsidiary. Ex-Cell-O Corp., another of the industry's long-time leaders, had transformed itself from a machine tool manufacturing company into a diversified industrial concern before Textron Corp. snapped it up last fall.

Such diversification is clearly not what those concerned about machine tool "competitiveness" have in mind. But it represents a predictable commercial response to the realities of the market, economic realities the government is mistaken in trying to second-guess. Attempting to keep the U.S. strong in sectors that are declining is a recipe not for competitiveness, but for obsolescence. ■

Where?



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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(1/30/87) Recent Price or Yield	Value of \$10,000 if invested:	
		Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	\$27.49/share	\$11,327	\$13,316
per cent change		+ 13.3%	+ 33.2%
Bonds (30-yr., 11¼% Treasury Bond)			
MARKET VALUE	\$136.23	\$10,053	\$11,526
ACCUMULATED INCOME		\$72	\$994
TOTAL		\$10,125	\$12,520
per cent change		+ 1.3%	+ 25.2%
Money Market Fund	5.50%	\$10,046	\$10,612
per cent change		+ .5%	+ 6.1%
Gold (Krugerrands)	\$409.00/oz.	\$10,049	\$11,619
per cent change		+ .5%	+ 16.2%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	\$105,200	\$116,100	\$100,800
per cent change		- 10.4%	+ 4.2%
New House	\$133,400	\$124,800	\$110,000
per cent change		+ 6.4%	+ 17.5%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board.

If holding on to your job as long as possible is your main aim, you may convince your boss to let you stay on for a year or two longer at full pay until the company can find or train an adequate replacement, and then give you a special severance agreement as a reward. Your best approach is a direct one. For example, you could tell your boss: "Look, I know you are going to need me for at least a while longer. What's in it for me if I stay around for another couple of years?" If he agrees that he needs you, says James Kuhns, a partner in consulting firm Kwasha Lipton, he is likely to throw in enough extra benefits to make your extended stay well worthwhile.

If you prefer to quit the job but keep some compensation coming in, you may persuade the boss to sign you up for an indefinite period as an independent consultant, so the company can continue to draw on your expertise whenever it is needed. But remember, too, that the IRS is now denying business expenses of consultants who do not work for more than one company.

Or you may be allowed to stay on the payroll for several months, until after the window has officially closed—but still get at least the same window benefits whenever you decide to leave. If you do a particularly good job, the company often will give you an extra kicker at the end of your stay, such as a period of paid leave or a couple of thousand dollars in cash.

You may be able to improve on that separation package. If retirement normally involves receiving an annuity for life, you may persuade the company instead to pay you a lump sum, thus putting yourself in full charge of your own retirement. The company also gains by such a deal, Kaye points out, since it doesn't have either the nuisance or expense of paying you for life. Instead, it can wipe out all its responsibilities to you with a single payment. When the maximum individual tax rate drops to 28% by next year, Kaye thinks companies will pay out more lump sums.

—JOHN C. PERHAM

NOTE

ONLY THE FOLLOWING PAGES OF THIS

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